

OFFICE OF AUDITS & ADVISORY SERVICES



CONTRACT INSURANCE REQUIREMENTS

FINAL AUDIT REPORT

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County of San Diego

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October 6, 2011

TO: Winston F. McColl, Director
Purchasing and Contracting Department

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: CONTRACT INSURANCE REQUIREMENTS

Enclosed is our report on the Contracts Insurance Requirements audit. We have reviewed your response to our recommendation and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendation in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Joseph Kelly at (858) 495-5655.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:TGP:aps

Enclosure

- c: Mikel D. Haas, Deputy Chief Administrative Officer, Community Services Group
Donald F. Steuer, Chief Financial Officer
Donald W. Turko, Director, Department of Human Resources
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Kaye Hobson, Group Finance Director, Community Services Group
Brian M. Hagerty, Group Finance Director, Finance & General Government Group

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) completed an audit of Contract Insurance Requirements. The audit objective was to determine whether required insurance and bond coverage is established and maintained throughout the terms of the contract.
Background	It is the County's policy to transfer risks associated with a contract, where appropriate, to the contractor. The County transfers this risk through contractor insurance requirements contained within the terms and condition of the contract. Department of Human Resources (DHR) Policy No. 1105 provides guidance on contract insurance requirements.
Audit Scope & Limitations	<p>The scope of the audit was limited to evidence or proof of insurance for revenue and expenditure contracts per DHR Policy No. 1105.</p> <p>This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.</p>
Methodology	<p>OAAS performed the audit using the following methods:</p> <ul style="list-style-type: none">• Reviewed the County of San Diego policies and procedures regarding contractor insurance requirements and management guidance;• Interviewed personnel from DHR Risk Management; and• Selected a sample of 21 contracts; requested and reviewed proof of insurance from the assigned County contract manager for each contract.

AUDIT RESULTS

Summary	In our opinion, within the scope of the audit, there is reasonable assurance that contractor insurance coverage is established and maintained throughout the term of County contracts. However, at the time of the audit, proof of insurance could not be substantiated for some contracts until after required documents were obtained from the contractor or agent.
Finding I:	<p>County Departments could Benefit from a Comprehensive Solution for Maintaining Evidence of Contractor Insurance</p> <p>Of the 21 contracts sampled, 11 (52%) did not have a certificate or other proof of contractor insurance already on file. The DHR Policy No. 1105 requires that all department contract files contain current evidence of contractor's insurance.</p>

Contract monitoring controls should include a method for ensuring that contractors maintain adequate insurance coverage throughout the term of the contract. The County has investigated the use of automated systems for monitoring contractor insurance requirements, and a few specific departments use them. Adequate monitoring ensures that risk is appropriately transferred, rather than retained by the County through self-insurance.

Recommendation:

The Department of Purchasing and Contracting should work with DHR to evaluate a comprehensive solution to verifying and documenting contractors' insurance.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

Department's Response



Winston F. McColl
Director

County of San Diego
Department of Purchasing and Contracting
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October 4, 2011

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OCT 05 2011

TO: James L. Pelletier
Chief of Audits (O-305)

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Winston F. McColl, Director
Department of Purchasing and Contracting (O-32)

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A11-003
CONTRACT INSURANCE REQUIREMENTS

Finding 1: County Departments could benefit from a Comprehensive Solution for Maintaining Evidence of Contractor Insurance

OAAS Recommendation: The Department of Purchasing and Contracting should work with DHR to evaluate a comprehensive solution to verifying and documenting contractors' insurance.

Action Plan Status: The Department of Purchasing and Contracting and Department of Human Resources will work jointly to develop a course of action.

Planned Completion Date: April 1, 2012

Contact Information for Implementation: Winston F. McColl, Director

If you have any questions, please contact me at (858) 537-2580.

WINSTON F. MCCOLL, Director
Department of Purchasing and Contracting

WFM:co

cc: Jan Mazone (D-7)